

Goldman Sachs Socialism

By William Greider

24/09/08 "The Nation" -- - Wall Street put a gun to the head of the politicians and said, Give us the money--right now--or take the blame for whatever follows. The audacity of Treasury Secretary Henry Paulson's bailout proposal is reflected in what it refuses to say: no explanations of how the bailout will work, no demands on the bankers in exchange for the public's money. The Treasury's opaque, three-page summary of plan includes this chilling statement:

"Section 8. Review. Decisions by the Secretary pursuant to the authority of this Act are non-reviewable and committed to agency discretion, and may not be reviewed by any court of law or any administrative agency." In other words, no lawsuits allowed by aggrieved investors or American taxpayers. No complaints later from ignorant pols who didn't know what they voted for. Take it or leave it, suckers.

Both political parties may submit to this extortion because they don't have a clue what else to do and bending over for Wall Street instruction, their usual posture, seems less risky than taking responsibility. Paulson and Bernanke evoked intimidating pressure for two reasons. The previous efforts to restore investor confidence had all failed as their slapdash interventions worsened the global panic. Besides, the Federal Reserve was running out of money. Nearly three-fifths of the Fed's \$800 billion portfolio is now loaded down with junk--the mortgage securities and other rotten assets it took off Wall Street balance sheets. The imperious central bank is fast approaching its own historic disgrace--potentially as discredited as it was after the 1929 crash.

Despite its size, the gargantuan bailout is still designed for the narrow purpose of relieving the major banks and investment houses of their grief, then hoping this restores regular order to economic life. There are lots of reasons to think it may fail. The big boys are acting, as usual, in self-interested ways since the government allows them to do so. Washington's money might pull firms back from the brink--at least the leaders of the Wall Street Club--but that does not guarantee the banks will resume normal lending, much less capital investing. The financial guys may well hunker down, scavenge the wreckage for cheap profits and wait for the real economy to get well. Likewise, global investors--China, Japan and other major creditors--have been burned and may step back from pumping more capital in the wobbly house of US finance.

Secrecy and opacity are crucial to achieve Wall Street's purposes. It could allow Paulson to overpay his old pals for near-worthless assets and slyly recapitalize the damaged banks while telling public and politicians the money is to save the system. To achieve this, Wall Street needs to keep control of the process whoever is elected president (the *Wall Street Journal* recommends John Thain, ex-chief of the New York Stock Exchange to succeed Paulson). Not everyone will be saved, of course, but high on the list of endangered nameplates is Goldman Sachs, Paulson's old firm. The high-flying investment house looks doomed by these events. The Fed quickly agreed to convert Goldman and Morgan Stanley into banks. Think of Paulson's solution as Goldman Sachs socialism.

The most hopeful comment I heard from an astute economist was by Nouriel Roubini of NYU, who has been darkly prescient during this crisis. The bailout should help, he told the *Times*. "The recession train has left the station, but it's going to be 18 months, instead of five years," he said. Hope he's right, but voters are unlikely to regard this as fair return on their \$700 billion. The bandits will be back in business and partying, while the victims are still gasping for air.

If Paulson's gamble fails--just as possible--then maybe government will finally undertake forceful intervention rather than friendly solicitude for Wall Street. Washington should literally take control of the banking and finance sector and employ its emergency powers to oversee and direct these private, profit-making enterprises. If any bankers do not wish to play, cut them off from any public assistance (and wish them good luck). Then government can exercise temporary supervisory powers that force banking to cooperate with economic recovery by sustaining lending and investment to the real economy. Washington can put profit on hold.

Order full stop to the many financial gimmicks and accounting illusions that led to inflated lending and falsified asset valuations. Unwind the complicated time bombs known as credit derivatives and shut down this lucrative line of business. Meanwhile, instead of throwing millions of homeowners and debtors out of their homes and into bankruptcy, hold them harmless temporarily so people can work out reasonable terms for recovery. Finally, force-feed new life into the real economy with government spending on public projects and capital formation. How much spending? Rescuing America from irresponsible Wall Street is worth whatever it costs to save the bloodied bankers.

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